

# News Release



***Controller of the State of California - Kathleen Connell***

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***FOR IMMEDIATE RELEASE***

## **STATE CONTROLLER CONNELL UNVEILS GOVERNMENT REFORM MEASURES**

*Connell Outlines Policy Recommendations in California G.O.L.D. Report*

*Growth, Opportunity, Leadership and Dependability Plan Tackles State Management Needs*

SACRAMENTO, January 3, 2000 -- State Controller Kathleen Connell today unveiled a series of policy and legislative reforms she plans to pursue in the 2000 legislative season. Connell's initiative package includes bold ideas to ensure continued statewide prosperity, improve California's long-term planning, and increase government responsiveness by identifying and proposing solutions to key strategic management needs facing the state.

"In this period of unprecedented economic expansion, now is the time to take bold steps to make certain that California remains competitive in the global marketplace of the 21st century," said Connell. "We cannot afford to neglect the obvious need for sound capital management. California must implement a plan to effectively utilize its current economic blessing, and bolster assistance to its businesses, its residents and local governments. Now is the time to lay the groundwork for a new Golden Age in California."

Connell presented her legislative and policy reform measures, which focus on the state's bifurcated financial management system, in her California G.O.L.D. report. Key concepts of the plan call for innovative reforms in areas of fiscal and capital management, information technology and health services management, and investment decision making.

"As State Controller, I am keenly aware of the additional growth potential California could enjoy once reform of its disconnected financial management system occurs," said Connell. "This plan challenges government to match the creativity and responsiveness of the private sector."

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Major components of the Controller's comprehensive reform recommendations include:

\* **Capital Outlay Prioritization** -- There is no documented statewide policy for identifying and prioritizing General Fund financed projects, nor a system for assessing and then prioritizing all needed projects in the state. Without policy, there is no basis for allocating funding for infrastructure improvements.

\* **Alternative Work and Transportation Credits** -- The state should encourage alternatives to travel during peak commute times. California should consider offering tax credits to employers who allow telecommuting and flexible work shifts in specified traffic congestion zones.

\* **Capital Debt Management Commission** -- The number of California's financing authorities have grown significantly with overlapping jurisdictions and redundant functions. There's no single control agency to oversee and coordinate debt issuance and no accountability to the people of California. The state should establish a Capital Debt Management Commission to oversee all debt issued by the state and provide a 5-year strategic plan to allocate debt and guarantee debt authority for future needs.

\* **Revamp Medi-Cal Reimbursement Rates** -- A Controller's 1996 audit found that Medi-Cal reimbursement rates for medical supplies are inflated and outdated. Medi-Cal providers have received markups as high as 500% of the actual costs for medical products. Connell estimates that Medi-Cal could realize more than \$100 million in annual savings by paying rates more reflective of current market values. Next to education, Medi-Cal represents the largest outflow of public funds -- more than \$20 billion in state and federal funds in FY 99-00. Fraud in the Medi-Cal program has been well publicized. Audits from the Controller's office have identified \$143 million in overpayments and saved an additional \$322 million from stopping additional improper payments.

\* **Long Term Care Insurance** -- Long-term care (LTC) services for residents costs California approximately \$5 billion per year. California needs legislation to allow tax deductions and business incentives for employers who offer LTC insurance as a benefit. This would substantially expand LTC coverage, help employers retain employees and reduce state costs.

\* **Direct Contracting Health Care** -- Public perception is that HMOs have failed to provide quality, low cost care -- while simultaneously posting record profits. As Chair of the State Teachers' Retirement System's Health Benefits Committee, the Controller has pushed for a statewide health care plan for teachers -- none exists currently. To alleviate problems associated with HMOs, Connell is proposing a direct contracting model used successfully in other states to link teachers directly to consortiums of doctors and other health care professionals, restoring the doctor-patient relationship.

\* **5-Year Information Technology Strategic Plan/Competition for Tech Services** -- The state should develop a strategic plan for its use of technology to keep pace with rapid technological services. Individual state organizations are required to have strategic plans, however the state needs to view technology as one entity, from the perspective of the public, not as a group of independent departments. Also, current state information technology departments should be expected to market their services in competition with the private sector to ensure costs savings and quality control.

\* **State and Local Government Finance** -- The Controller released two reports, SMART and SMARTER, which address the need to rectify the decades-long imbalance in state and local government financing. "Local governments should be guaranteed a funding floor," said Connell.

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*Editor's Note: Full report and other recommendations available at [www.sco.ca.gov](http://www.sco.ca.gov).*

## **State Controller Kathleen Connell's California GOLD Legislative Initiatives**

Recognizing that California's current economic strength provides an unprecedented opportunity to make essential changes in California's financial investment, information technology and health care policies, State Controller Kathleen Connell proposes a series of legislative initiatives and policy changes for the year 2000. Collectively entitled the **California GOLD Plan**, the Controller's proposals establish goals and implementation recommendations for improvements that will lead to **Growth, Opportunity, Leadership, and Dependability**.

The California GOLD plan provides for strategic management improvements in five key areas: fiscal management, capital planning, information technology development, health services reform, and enterprise investment. If enacted, these initiatives will increase the accountability of California government, ensure continued statewide prosperity, provide greater services to California citizens, and significantly improve long-term planning at both the state and local levels.

To sustain and encourage **Growth**, California GOLD calls for coordinated capital planning to maintain and improve infrastructure. An audit of all state facilities would provide the basis for prioritizing capital outlays and a new centralized planning agency would have responsibility for reporting on capital outlay funding and tracking completion of capital improvements.

To provide **Opportunity** for businesses and individuals to improve their economic position, California GOLD proposes various tax policy reforms such as exempting employer-provided graduate educational assistance from employees' taxable incomes; giving tax credits to employers who adopt policies that reduce traffic congestion; eliminating taxes on gains from the sale of interests in qualified California businesses; and establishing a Capital Debt Management Commission to oversee all debt issued by the state, consolidating the existing financing authorities and committees from 33 to nine

California GOLD provides **Leadership** for two key management areas: health care and information technology. It calls for dramatic reductions in Medi-Cal reimbursement rates consistent with successful practices in other states; urges that the state develop a pilot program to contract directly with physician groups for health care for teachers; and recommends tax credits to businesses to encourage long-term care insurance as an employee benefit. To improve management of information technology at the state level, California GOLD recommends a 5-year strategic plan, a customer service perspective, and competition with the private sector to assure the best solutions and value for the state.

California GOLD addresses the need for **Dependability** in state government. It improves current state and local government financing by capping the State's diversion of property tax revenues and apportioning future local sales taxes on a per capita basis, eliminating "unfunded" state mandates to municipalities, and requiring performance audits of five major state departments to improve the efficiency and effectiveness of government programs. Additionally, the plan calls for a mandated reserve fund, centralized responsibility for the collection and disbursement of monies via the Internet (E-Government), and a two-year budgeting cycle to provide the Legislature and top state administrators more time to focus on policy issues and long-range strategic planning.

The State Controller urges the early adoption of these reforms to ensure California's competitiveness in a global economy and make California state government more effective and more responsive to the needs of citizens.